

The Palouse River and Coulee City Railroad

Public Acquisition and Rehabilitation Plan

February 2004

HOW CAN THE PUBLIC GET INVOLVED?

In March 2004, WSDOT staff will be holding public meetings in eastern Washington to discuss the potential acquisition and rehabilitation of the Palouse River and Coulee City Railroad/Blue Mountain Railroad network. Meeting dates and locations will be posted at

www.wsdot.wa.gov/rail/projects/pcc_acquistion/ and will also be announced in local newspapers.

For additional information on this project, please call WSDOT at 1-800-822-2015 (in Washington state), 1-360-705-7901 (in Thurston County or outside of Washington), or by email at rail@wsdot.wa.gov.



“The economy of the state will be best served by a policy of maintaining and encouraging a healthy rail freight system by creating mechanisms that keep rail freight lines operating if the benefits of the service outweigh the cost.”

RCW 47.76.200

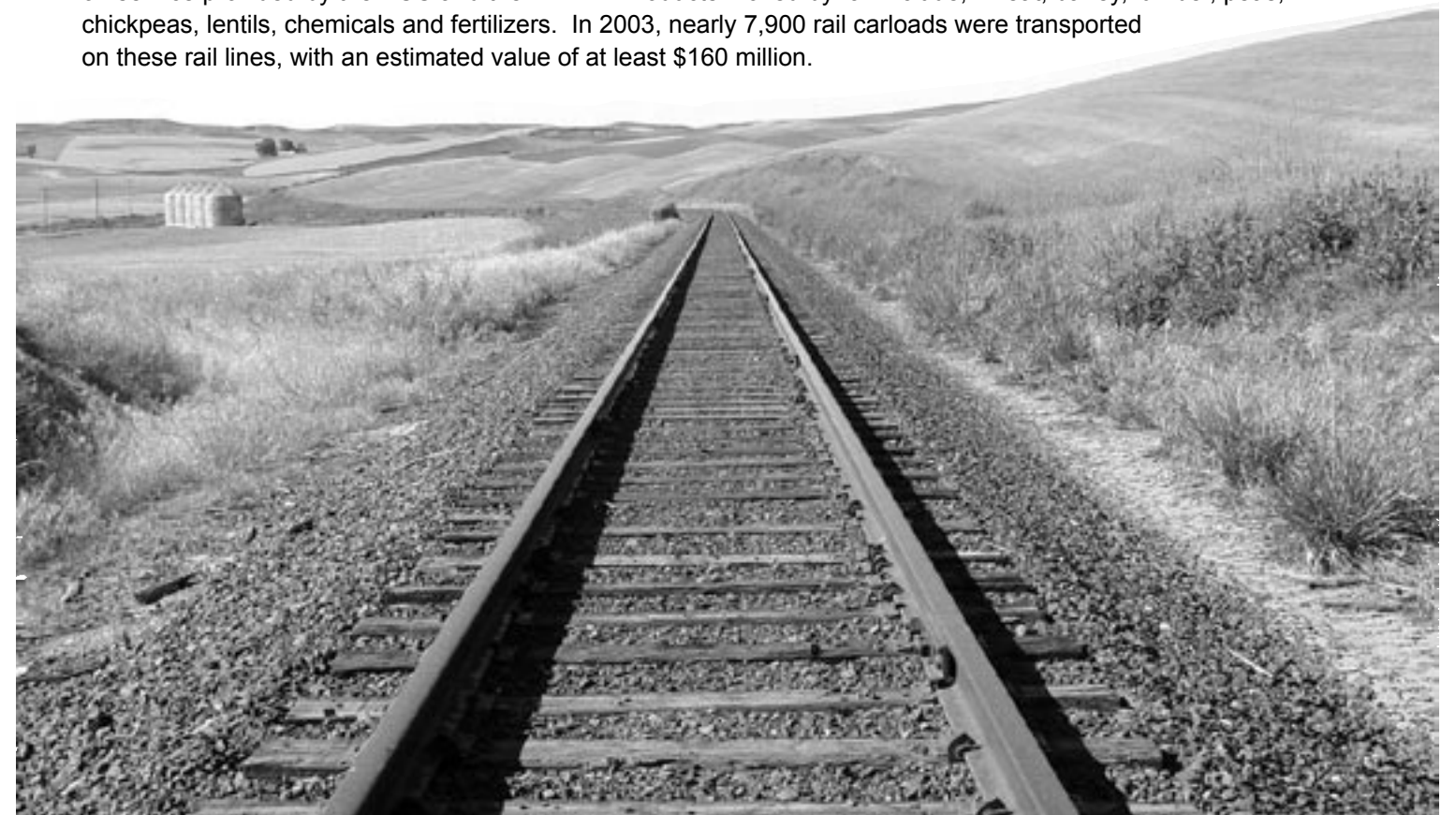
BACKGROUND: WSDOT AND THE PALOUSE RIVER AND COULEE CITY RAILROAD

The 2003 Transportation Funding Package authorized funding to acquire the privately owned Palouse River and Coulee City (PCC) Railroad and to rehabilitate the right of way of the PCC and its sister railroad, the Blue Mountain Railroad (BLMR). The legislature appropriated \$7.35 million for the PCC acquisition and over \$26 million for strategic track repairs to the PCC and the BLMR over the next ten years. These funds would be managed by WSDOT, only if it is determined that the acquisition and rehabilitation projects make financial sense in the short and long term.

WHAT IS HAPPENING WITH THESE RAIL LINES NOW?

The PCC and the BLMR are suffering from years of deferred maintenance. These railroads, under direction of the same parent company, WATCO, Inc., provide most of the local rail service for rural eastern Washington. WATCO Inc. has indicated it does not have enough capital to address the backlog of repairs necessary to keep all the lines in operation. As a result, WATCO announced its intention to abandon sections of the railroad, eliminating rail service for many communities in eastern Washington.

The PCC is the state's longest short-line freight railroad, spanning four counties in eastern Washington, and handles nearly one-fifth of the state's grain harvest each year. Over 70 businesses, farmer cooperatives, and industries depend on service provided by the PCC and the BLMR. Products moved by rail include, wheat, barley, lumber, peas, chickpeas, lentils, chemicals and fertilizers. In 2003, nearly 7,900 rail carloads were transported on these rail lines, with an estimated value of at least \$160 million.



Learn more about the Palouse River and Coulee City Railroad online at
www.WSDOT.WA.GOV/Projects/PCC_Acquistion/



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This bridge plate shows that portions of the PCC are over 100 years old

HOW WILL WSDOT DECIDE WHETHER TO PURCHASE THE PCC?

In order to reach the judgment that the purchase and rehabilitation of the Palouse River and Coulee City Railroad (PCC) is in the public’s interest, WSDOT is required to perform a detailed cost/benefit assessment to determine whether the railroad can sustain itself without operating subsidies. WSDOT has already conducted the following research as part of this cost/benefit assessment:

- An estimate of savings shippers gain through the existence of rail service.
- An estimate of the public expenditures that would be necessary for road repairs if all PCC freight rail traffic were diverted to local and regional roadways.
- The potential for increasing customers and revenue.
- The net liquidation value of the PCC if it were abandoned and all rail materials were sold off.
- The financial health of the current owner.
- Cost estimates for track repairs necessary to halt track degradation and provide safe and reliable service.

WHAT HAS WSDOT LEARNED SO FAR?

WSDOT has performed an extensive engineering and business review of the individual PCC and Blue Mountain Railroad (BLMR) projects. WSDOT has determined that:

- The PCC/BLMR was formed in the 1990s out of former Union Pacific and Burlington Northern branch lines. These lines already suffered from inadequate maintenance.
- The PCC owner has determined that it does not have the resources to repay rehabilitation loans.

- The Port of Columbia County, a public entity, owns most of the BLMR. The entire PCC is privately owned.
- Much of the PCC/BLMR system will likely be abandoned in the next few years without an extensive rehabilitation costing far beyond the railroad’s means.
- A different private operator is not likely to alter the economic viability of the rail lines.
- Based on engineering and business reviews by WSDOT and outside experts, the funds provided by the legislature are enough to provide for the basic rehabilitation of the PCC/BLMR system.
- Investment (acquisition and rehabilitation) in the entire PCC/BLMR system must be looked at to ensure short and long term economic return on public funds invested.
- Based on WSDOT’s analysis, the rebuilt PCC/BLMR could generate nearly twice as many public benefits (e.g., reduced shipper rates, jobs saved/created, reduced highway wear and tear) as the cost of the public investment. Economic growth opportunities could also be enhanced.

WHAT IS AN OPERATING FRANCHISE AND HOW DOES IT AFFECT THIS PROJECT?

The PCC Railroad is made up of two distinct parts—both governed by the federal Surface Transportation Board: The first is the real property of the railroad itself, which includes the railroad right-of-way and all of the tracks, crossties, bridges and ballast. The other piece is what is known as an *operating franchise*, or the legal right to operate the railroad. The proposed public purchase of the PCC includes the right-of-way and track structures, but not the franchise agreement. Meaning, if WSDOT makes the purchase, WATCO will continue to operate the line.



WSDOT inspected the entire PCC rail line in 2003

WHAT ADDITIONAL INFORMATION DOES WSDOT NEED BEFORE MAKING A DECISION?

WSDOT staff will be meeting with shippers who use this rail network to identify their service needs and the performance provisions WSDOT should consider. WSDOT will also be meeting with local governments, including city, county, and port officials to get their feedback on the potential purchase and rehabilitation plan, as well as ideas on the best way to establish a governing body to oversee the railroad’s operations and rehabilitation.

WHAT ARE THE RISKS TO THE STATE IF WSDOT PROCEEDS WITH ITS ACQUISITION AND REHABILITATION PLAN?

WSDOT is committed to ensure, if purchased, the line could be rehabilitated and operational costs are not subsidized by the state. Below are some scenarios that could create risk to WSDOT’s capital investment:

- Approximately 80% of the traffic on the PCC/BLMR rail lines is agriculture-related. Changes in the global marketplace could affect commodity prices and reduce demand for the products shipped on the PCC/BLMR. This same risk exists in all sectors of the American economy.
- Competitive pricing by other modes of transport could impact future traffic volumes on PCC/BLMR network. However, rail transportation is historically more cost-effective for large, bulk shipments than truck transportation, so it is unlikely that PCC/BLMR shippers will find a price advantage by using other modes of transportation.
- Since the PCC and the BLMR rely on connecting service with the larger transcontinental railways, the prices and service quality provided by these larger rail carriers could have an impact on the quality of service for shippers on PCC and BLMR. However, federal law requires the transcontinental railways to provide connecting service to smaller railroads, and legal mechanisms exist to resolve price disputes if they arise.
- WATCO, the state’s contracted operator, could fail to meet shipper expectations. However, a carefully crafted operating agreement between WSDOT and WATCO, developed with input from shippers and local jurisdictions, could help ensure that the level of service provided by WATCO meets these expectations.



The PCC serves over 30 storage elevators across eastern Washington

